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Nakasone Pledges Further Market Access Efforts in Meeting with Reagan

Despite this country's ballooning trade deficit with Japan, most top government officials in Washington and Tokyo had expected the January 2 Los Angeles meeting between Prime Minister Yasuhiro Nakasone and President Reagan to be devoted at least equally to international matters, particularly the then-upcoming U.S.-U.S.S.R. arms control talks, and bilateral trade problems. To the surprise of these policymakers, the familiar issue of U.S. access to the Japanese market dominated the fifth round of discussions between the two leaders.

Prime Minister Nakasone may have sought an early meeting with President Reagan for that purpose, among others. Although he personally may be committed to the goal of market liberalization, the Japanese leader does not necessarily have the political influence to force the bureaucracy to make the concessions needed to satisfy that goal. At the same time, though, his support for market liberalization adds to the pressure on the Japanese government to fulfill these aims. In a sense, Mr. Nakasone is using his stature as an international leader to achieve domestic policy goals.

On the foreign policy side, the Nakasone-Reagan meeting underscored Japan's growing role in international policy circles and reminded that audience of Japanese interests. By continuing the pattern established at the outset of his administration, Mr. Nakasone is enabling the nation to play a more prominent role in world politics and encouraging other countries to include Japan in the policymaking process.

Michael Chinworth

Japanese Government Sees 4.6 Percent GNP Growth in FY 1985

Resurgent domestic demand tempered by reduced export expansion forms the basis for the Japanese government's fiscal 1985 (April 1, 1985 to March 31, 1986) economic growth forecast. A moderate 4.6 percent increase is predicted in real gross national product (GNP) -- down from FY 1984's projected 5.3 percent gain but still higher than initial growth forecasts for FY 1983.

According to Economic Planning Agency (EPA) analysts, domestic demand will power the economy, accounting for 4.1 percentage points of total GNP growth versus an estimated 4 points this fiscal year. Investment in capital equipment by businesses is expected to remain solid but will fall short of FY 1984's double-digit rate (see accompanying tables). Improved consumer spending should also bolster growth, based on an improved psychological environment. However, wage increases are expected to be only slightly more generous than this year's, and employment growth could be restrained, preventing any surge in personal consumption. The optimistic outlook for residential construction is somewhat at odds with this sector's recent performance, although declining interest rates and improved consumer confidence may indeed herald better times. The inflation rate is predicted to be slightly higher than in the current fiscal year due to increased economic activity, but it will remain at low levels by industrial country standards because of weak world commodity prices, especially for energy resources.

The agency's outlook for a weak net external sector (contributing just 0.5 percentage points to overall GNP growth) hinges on its expectations that exports in yen terms will only expand 6.1 percent, far below FY 1984's anticipated 14.6 percent gain. Import growth may actually exceed export growth for the first time since FY 1978. Nonetheless, Japan's merchandise trade surplus is expected to remain at FY 1984's projected record $44 billion level. No change is seen in the current-account surplus either, with the deficit in services trade holding steady at $10 billion. The outflow of long-term capital is expected to continue, reaching $40 billion, slightly less than FY 1984's $45 billion.

Government FY 1985 Forecast for the Japanese Economy

(percentage change)

	Actual			Estimated	Projected
	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985
Real GNP	5.8%	5.0%	4.2%	5.3%	4.6%
Consumer Spending	5.6	7.1	4.7	3.1	4.1
Residential Construction	2.1	2.8	8.9	3.1	3.8
Capital Spending	3.9	1.3	3.5	10.1	8.5
Current Account Surplus*	$5.9	$9.1	$24.2	$34.0	$34.0
Merchandise Trade Surplus*	$20.4	$20.1	$34.5	$44.0	$44.0
Exports (in yen terms)	10.9%	-9.1%	10.8%	14.6%	6.1%
Imports (in yen terms)	0.8	-10.4	0.3	10.6	7.6
Wholesale Prices	1.3	1.0	-2.3	0.3	1.1
Consumer Prices	4.0	2.4	1.9	2.4	2.8
Unemployment Rate	2.2%	2.5%	2.7%	2.8%	2.7%

*in billions of dollars

Summary of Private Forecasts for FY 1985

(percentage change)

	Real GNP	Consumer Spending	Capital Spending	Exports	Current Account Surplus*	Y/$ Exchange Rate
Dai-Ichi Kangyo Bank	4.2%	4.0%	8.1%	6.5%	$44.8	Y230
Fuji Bank	4.2	3.8	6.2	6.3	38.0	233
Mitsubishi Bank	5.1	4.2	9.5	6.4	34.0	243
Sanwa Bank	4.5	3.7	8.1	7.4	47.0	235
Mitsui Bank	4.4	3.8	7.9	5.5	40.0	232.5
Taiyo Kobe Bank	4.2	3.9	7.4	5.4	36.0	n.a.
Tokai Bank	3.6	3.6	5.9	4.1	39.5	n.a.
Bank of Tokyo	4.6	n.a.	n.a.	6.9	45.0	220
Nomura Research Institute	4.0	3.9	6.0	5.7	39.4	231
Daiwa Economic Research Institute	4.6	3.8	5.3	9.7	40.2	231
Nikko Research Center	4.1	3.3	6.2	5.1	35.9	230
Yamaichi Economic Research Institute	4.3	3.9	5.7	6.3	45.1	237.5
Mitsubishi Research Institute	3.8	2.4	4.9	8.4	46.6	250
Research Institute of the National Economy	6.0	4.1	11.9	7.4	42.6	230

*in billions of dollars

A number of private forecasters have also presented FY 1985 outlooks. Most of these assume that the Bank of Japan's discount rate will remain at 5 percent; budget outlays will continue to be restrained; and no major tax reform is in the offing. These common assumptions aside, there is a fairly wide range of views on real growth rates (3.6 percent to 6.0 percent) and current-account surpluses ($36 to $47 billion) (see accompanying table). The primary factors leading to differences among forecasters are the variations in the growth of capital spending and exports, reflecting uncertainties about the prospects for foreign economies, particularly the United States'. One train of thought sees the U.S economy settling into a pattern of moderate, steady growth, translating into good export markets and 4-percent-plus growth at home. Other analysts are more pessimistic, predicting stagnation, if not recession, in the U.S. economy and therefore sharply reduced exports and business investment at home.

Another area of uncertainty is the strength of the dollar. Most forecasters are hedging their bets this year by widely bracketing the yen's average annual exchange rate from Y230=$1.00 to Y250=$1.00. The dollar has been unusually volatile over the past year, often embarrassing forecasters. The general view is that the dollar is unrealistically high at the moment, presenting the risk of a rapid fall as U.S. economic growth and interest rates moderate.

Despite Commerce Department estimates of renewed U.S. growth, the Japanese are uneasy. Prime Minister Nakasone will continue to pursue policies that emphasize domestic demand as the economy's engine. With fiscal restraint still in effect, Mr. Nakasone is banking on deregulation of markets and promotion of private initiatives to invigorate the domestic economy. The changes he is seeking, however, will be difficult to achieve and slow in coming. In the meantime, the Japanese economy will continue to rely heavily on an active global economy for momentum.

Jon Choy

Japan's FY 1985 Budget Draft Signals More Belt-Tightening

On December 24, the cabinet of Prime Minister Yasuhiro Nakasone approved the Ministry of Finance's draft budget for the fiscal year starting April 1, 1985. Austerity will be the spending watchword for the third year in a row. Expenditures will total just under Y52.5 trillion ($214.3 billion at Y245=$1.00), a 3.7 percent increase over FY 1984's initial budget. It may appear that Mr. Nakasone heeded calls from some quarters of the Liberal Democratic Party (LDP) for a stimulative fiscal policy since the FY 1985 budget increase is far in excess of the 0.5 percent rise set for the current fiscal year. Discretionary spending (total outlays less debt service costs and transfers to local governments), however, has been pushed below the FY 1984 level: Y32,585,405 million versus Y32,585,741 million. In addition, the shrinking budget pie continues to be reapportioned in line with Mr. Nakasone's free market and pro-defense philosophies.

Budget winners and losers are evenly divided, with social welfare (up 2.4 percent), defense (rising 6.9 percent), economic cooperation, including official development assistance (gaining 7.8 percent), and energy-related prospects (expanding 4.2 percent) getting the thumbs-up. A 14.5 percent cut in